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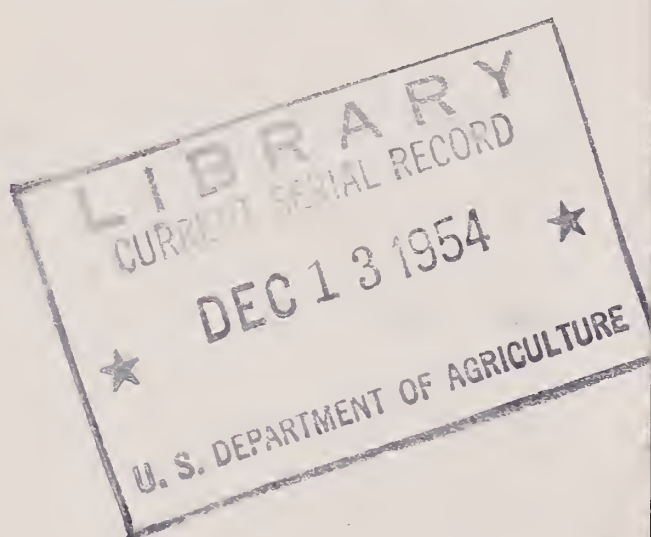


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Insured Farm Loans

Information
for Lenders X



PA-254

November 1954

U. S. Department of Agriculture
Farmers Home Administration
Washington, D. C.

Information for Lenders About Insured Farm Loans

The insured farm loan program is designed to make available to farmers and ranchers a supplemental source of credit and to encourage the use of private capital in place of direct Government loans. Through this program which is carried on by the Farmers Home Administration, an agency in the U. S. Department of Agriculture, private lenders can advance funds to eligible farmers to buy land and to improve their farms.

Payments on principal and interest are fully guaranteed by the Government. All loan-making and servicing operations are handled by the Farmers Home Administration.

Loans are made only to farmers unable to obtain the necessary credit through usual credit channels at reasonable rates and terms. Applications from veterans receive preference in processing.

Types of Loans

Two broad categories of loans are insured: (1) Soil and water conservation loans, and (2) farm-ownership loans.

Soil and water conservation loans, as authorized by 16 U. S. C. 590r et seq., as amended, Public Law 597, 83d Congress, may be advanced to pay cash costs of materials, equipment and services directly related to soil conservation; water development, conservation and use; and drainage. This includes such improvements as the construction and repair of terraces, dikes, and ponds, establishment and improvement of permanent pastures, basic application of lime and fertilizer, tree planting, well drilling, land leveling, ditching, and the purchase of pumps, sprinkler systems and other irrigation equipment. Soil and water conservation loans may be made to individuals in amounts up to \$25,000 and to certain nonprofit incorporated associations in amounts up to \$250,000.

Farm ownership loans, as authorized by 7 U. S. C. 1001-1005d, as amended, Public Law 521, 83d

Congress, may be used to help tenants purchase a farm of their own, to help small farmers develop or enlarge their farms into economic units and to finance, on family-type farms, the construction and repair of farm houses and other essential farm buildings. Insured farm ownership loans are limited to 90 percent of the fair and reasonable value of the farm.

Assured Market

Many of the insured loans will be repayable in periods from 2 to 10 years. When a loan has a term extending more than 10 years the lender may, within the 11th year, assign the loan to the Government and receive full payment in cash.

After the initial 10-year period has elapsed, if the lender prefers, the Government may offer him a repurchase agreement for an additional period. Or the lender may decide to hold the insured loan until it is refinanced or paid in full by the borrower.

Refinancing

A borrower is required to refinance his insured loan whenever he is able to obtain a noninsured loan on reasonable rates and terms.

Security

The Government guarantees that lenders who invest in insured loans will receive full payment of principal and interest.

Several safeguards are used to protect the Government's interests. Before the loans are made the applications are reviewed by the local county committees of the Farmers Home Administration. These committees are composed of three local persons, at least two of them farmers, whose reputations for sound judgment are well established. No loan is made unless the committee certifies that the applicant is eligible and has a reasonable likelihood for success.

Generally, a loan will be secured by a mortgage on the borrower's farm; however, selected items of chattel property may be used to secure soil and water conservation loans.

To further assure likelihood of success and repayment of the loans, the Farmers Home Administra-

tion, when necessary, furnishes technical assistance to borrowers in developing and carrying out sound farming methods.

Interest Rates

The interest rates are established so as to assure a fair return to the lender under prevailing money market conditions. In addition to the interest paid the lender, the borrower pays annually a 1 percent insurance charge to the Farmers Home Administration.

Repayments

The Farmers Home Administration collects all payments from the borrower and transmits to the lender by United States Treasury check, amounts to be applied on the note. Such payments are applied first to interest accrued on the note as of the date of the United States Treasury check, and second to principal. Refunds, however, will be applied entirely to principal.

Installments on the note become due annually on January 1, but advance payments may be made at the convenience of the borrower. Payments made by the borrower will be remitted to the lender when received, except payments aggregating less than \$200 during a calendar quarter will be remitted at the end of the quarter.

If a borrower is in default on an installment on the note, the Farmers Home Administration will pay the current holder of the note the amount due and unpaid.

The borrower is in default on an installment when the accumulative amount of payments (other than refunds, or the proceeds from the sale of mortgaged property or from royalties from leases under which the value of the property is depleted) made on the note is less than the accumulative amount due.

Payments to lenders of amounts borrowers are in default will be made from the insurance fund established under section 11 (a) of the Bankhead-Jones Farm Tenant Act, as amended (7 U. S. C. 1005a and section 10 (a) 3 of the act of August 28, 1937, as amended by Public Law 597, 83d Congress).

To protect the Government's interest the Farmers Home Administration may, when a borrower

is in default for any reason, take over the insured loan and pay the lender in cash the full amount of unpaid principal and interest.

Marketability and Collateral

The loan instruments held by the lender are transferable. Notice of transfer must be given by the lender to the Farmers Home Administration so that the agency may remit payments to the current holder of the loan. The benefits of loan insurance will accrue to an assignee upon acknowledgment by the Government of the notice of assignment. Loans may be used for collateral without notifying the Farmers Home Administration.

Loan Servicing

All loan-making and servicing operations are carried on by the Farmers Home Administration. This includes the approval of applications, the appraisal of farms, the obtaining and servicing of security, and when necessary, helping borrowers develop sound and profitable farming operations.

Any work or expense involved in handling delinquencies or foreclosures is also the responsibility of the Farmers Home Administration.

Lending Procedure

The following steps are taken in making an insured loan:

1. The farmer applies at the Farmers Home Administration office serving the county in which the farm to be bought or improved is located. The office is usually located at a county seat and may serve more than one county.

2. The local county committee certifies as to the applicant's eligibility and his reasonable likelihood for success.

3. The Farmers Home Administration takes whatever steps are necessary to determine the soundness of the loan and to obtain adequate security.

4. When the loan is ready to be closed the Farmers Home Administration requests a check from the lender for the amount of the loan. As soon as any insured loan is closed the agency forwards to the lender a note bearing the Government's guarantee. In addition, for a farm ownership loan, the agency

forwards to the lender the mortgage as soon as it is recorded. The agency in all cases will hold any property insurance policies, title insurance policies, and opinions of title.

Differences Between Types of Loans

As far as lenders are concerned, here are the principal differences between soil and water conservation loans and farm ownership loans.

1. *Term*.—The majority of the farm ownership loans will be 40-year loans. It is expected that most soil and water conservation loans will be for periods of less than 10 years.

2. *Security*.—Insured farm ownership loans are always secured by a first real estate mortgage and the Bankhead-Jones Farm Tenant Act requires that the lender be the mortgagee. Soil and water conservation loans may be secured by less than a first mortgage on real estate and by liens on selected chattels. In the case of soil and water conservation loans, the Government is the mortgagee.

However, whether the mortgage is held by the lender or the Government, the lender's investment is fully guaranteed.

Lender Participation

To participate in the insured loan program a lender should write to R. B. McLeaish, Administrator, Farmers Home Administration, Washington 25, D. C. In the letter the lender should state the amount of money he wishes to invest in insured loans, the period of time the money he wishes to invest will be available, the States and territories in which the lender desires to participate in the insured loan program, and whether the lender desires to advance funds for both farm ownership and soil and water conservation loans.

The Administrator of the Farmers Home Administration will acknowledge the lender's commitment and will notify the agency's field offices of the sources of insured funds available.

For further information write—

Farmers Home Administration
U. S. Department of Agriculture
Washington 25, D. C.

